

# Redevelopment Agency of the City of Sunnyvale

Sunnyvale, California



**Basic Financial Statements  
and Independent Auditors' Reports**  
*For the year ended June 30, 2003*



**Redevelopment Agency of the City of Sunnyvale**  
**Basic Financial Statements**  
**And Independent Auditors' Reports**  
For The Fiscal Year Ended  
June 30, 2003



**City of Sunnyvale**  
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Prepared by the Department of Finance  
Mary J. Bradley, Director of Finance

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**June 30, 2003**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Redevelopment Agency  
of the City of Sunnyvale  
Sunnyvale, California

We have audited the accompanying basic financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency), a component unit of the City of Sunnyvale, as of and for the year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2003, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Agency adopted statements of the Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations are Component Units*; and, No. 41, *Budgetary Comparison Schedules - Perspective Differences*.

The Required Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the Agency. This Required Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

*Caporicci & Larson*

Oakland, California  
October 16, 2003

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Redevelopment Agency  
of the City of Sunnyvale  
Sunnyvale, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 16, 2003. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Agency's Board, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

*Caporicci & Larson*

Oakland, California  
October 16, 2003

***Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2003***

This analysis of the Redevelopment Agency (Agency) of the City of Sunnyvale's (City) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the accompanying basic component unit financial statements and the accompanying notes to those component unit financial statements.

***A. FINANCIAL HIGHLIGHTS***

- At June 30, 2003, the Agency had net deficits (excess of liabilities over assets) of \$50.2 million as a result of long-term debt to the City and in the Low-and-Moderate Income-Housing Fund.
- During the fiscal year ended June 30, 2003, the Agency's total net assets decreased by \$3.2 million due to the Agency's inability to raise sufficient tax increment revenues to meet its debt obligations as a result of Proposition 13 and other State laws limiting the Agency revenue streams. The most significant portion of this decrease was due to interest expenses.
- The Agency is dependent on tax increment revenues and investment income.
- The Agency's total bonded debt decreased by \$650,000 during the current fiscal year as a result of current debt service repayments. The Agency's loans payable to the City increased by \$3.4 million as a result of interest accrued on old loans and cash flow needs for current operations.

***B. OVERVIEW OF FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

The Basic Financial Statements include only the Redevelopment Agency of the City of Sunnyvale, which is a component unit of the City and is reported in the City's financial statements using the blended method.

***Government-Wide Financial Statements***

The Government-Wide Financial Statements present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. These statements present governmental activities and include all assets of the Agency (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by GASB Statement No. 34.

***Management's Discussion and Analysis, Continued***  
***Fiscal Year Ended June 30, 2003***

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***B. OVERVIEW OF FINANCIAL STATEMENTS, Continued***

***Government-Wide Financial Statements, Continued***

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the Agency as a whole and about its activities. These statements include *all* assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the Agency's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Agency only has governmental activities, which are shown in the Statement of Net Assets and the Statement of Activities and Changes in Net Assets:

*Governmental Activities*—All of the Agency's basic services are reported in this category, including Planning and Management, Community Development and Transportation. Property tax and investment income finance these activities.

***Fund Financial Statements***

The Fund Financial Statements provide detailed information about the Agency's major funds—not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other monies.

The Fund Financial Statements include statements for the governmental activities. These statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

*Governmental Funds*—The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Funds Financial Statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Agency's near-term financial requirements.

***Management's Discussion and Analysis, Continued***  
***Fiscal Year Ended June 30, 2003***

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***B. OVERVIEW OF FINANCIAL STATEMENTS, Continued***

***Fund Financial Statements, Continued***

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's Governmental Fund Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for both the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances to facilitate this comparison.

All of the Agency's funds were determined to be major funds. These funds include the General Fund, the Low and Moderate Income Housing Special Revenue Fund, the Debt Service Fund and the Capital Projects Fund, which are reported in detail in the Governmental Fund Financial Statements.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

***Required Supplementary Information***

In addition to the basic financial statements, this report also presents certain Required Supplementary Information which includes the Agency's budgetary comparison schedules for the General Fund and the Low and Moderate Income Housing Special Revenue Fund.

***C. GOVERNMENT-WIDE FINANCIAL ANALYSIS***

***Statement of Net Assets***

Net assets are a good indicator of the Agency's financial position. During this fiscal year, the Agency had net deficits of \$50.2 million.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2002 and 2003.



**Management's Discussion and Analysis, Continued**  
**Fiscal Year Ended June 30, 2003****C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued****Statement of Net Assets, Continued**

<b>Redevelopment Agency of the City of Sunnyvale</b> <b>Condensed Statements of Net Assets</b> <b>June 30, 2003 and 2002</b> <b>(Amounts in Thousands)</b>			
	2003	2002	Total % Change
<b>Assets:</b>			
Current Assets	\$ 3,501	\$ 8,170	(57.1)%
Capital Assets, Net	15,673	15,905	(1.5)%
<b>Total Assets</b>	<b>19,174</b>	<b>24,075</b>	<b>(20.4)%</b>
<b>Liabilities:</b>			
Current Liabilities	1,301	5,709	(77.2)%
Other Liabilities	45,907	42,511	8.0 %
Long-term Liabilities	22,210	22,890	(3.0)%
<b>Total Liabilities</b>	<b>69,418</b>	<b>71,110</b>	<b>(2.4)%</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	(7,217)	(7,635)	(5.5)%
Restricted	6,650	10,780	(38.3)%
Unrestricted	(49,677)	(50,180)	(1.0)%
<b>Total Net Assets</b>	<b>\$ (50,244)</b>	<b>\$ (47,035)</b>	<b>6.8 %</b>

At June 30, 2003, the Agency reported negative balances in two categories of net assets. Invested in capital assets net of related debt shows a negative balance of \$7.2 million, as the debt related to the assets has not yet been liquidated.

Unrestricted net assets also shows a negative balance due to the loan given to the Agency by the City for development of the downtown project area and for operations of the Agency. The Agency's ability to repay its debt obligations was undermined by the passage of Proposition 13, which stripped the Agency of approximately two-thirds of its property tax increment. In addition, other state laws, such as caps on the time period of revenue collection and actual revenue limits have further damaged the Agency's ability to repay its loan. Currently the time limit for tax increment collection is 2025 and the total revenue limit is \$118 million.

A portion of the Agency's net assets, \$6.7 million are subject to restrictions imposed by external parties and their use is determined by those restrictions and agreements.

**Management's Discussion and Analysis, Continued**  
**Fiscal Year Ended June 30, 2003****C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued****Statement of Activities**

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2002 and 2003.

**Redevelopment Agency of the City of Sunnyvale**  
**Condensed Statement of Activities and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2003 and 2002**  
**(Amounts in Thousands)**

	<u>2003</u>	<u>2002</u>	<u>Total % Change</u>
<b>Revenues:</b>			
General Revenues	\$ 2,770	\$ 2,776	(0.2)%
<b>Expenses</b>	<u>5,980</u>	<u>5,557</u>	<u>7.6 %</u>
Increase (Decrease) in Net Assets	(3,210)	(2,781)	15.4 %
Net Assets - Beginning	<u>(47,034)</u>	<u>(44,254)</u>	<u>6.3 %</u>
Net Assets - Ending	<u>\$ (50,244)</u>	<u>\$ (47,035)</u>	<u>6.8 %</u>

The Agency's most significant expense was interest on long-term debt of \$4.7 million. Total operating expenses were \$1.2 million. Revenues consisted of property taxes and investment earnings, which were insufficient to meet current year's expenses. As a result, net assets decreased by \$3.2 million, resulting in further loans from the City.

Functional expenses for the fiscal years ended June 30, 2002 and 2003 (does not include interest expense of \$4.7 million) were as follows (amounts in thousands):

	<u>2003</u>	<u>2002</u>	<u>Total % Change</u>
Planning and Management	\$ 318	\$ 155	105.2%
Community Development	967	718	34.7%
Transportation	<u>-</u>	<u>229</u>	<u>(100.0)%</u>
Total	<u>\$ 1,285</u>	<u>\$ 1,102</u>	<u>16.6%</u>

***Management's Discussion and Analysis, Continued***  
***Fiscal Year Ended June 30, 2003***

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***D. FUND FINANCIAL STATEMENT ANALYSIS***

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Agency's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

As of the end of fiscal year 2003, the Agency's governmental funds reported a combined ending fund deficit of \$42.7 million. This deficit was largely due to the loan due to the City's General Fund as discussed in the Government-Wide analysis of the Statement of Net Assets.

***E. BUDGETARY HIGHLIGHTS***

Over the course of the year, the Agency Board revised the Agency budget several times. Possible budget amendments fall into three categories:

- Amendments and appropriations approved shortly after the beginning of the year to reflect capital and special project carryovers for unspent appropriations of projects that have not been completed.
- Changes made to the budget as a result of mid-year review.
- New appropriations approved by City Council.

For the fiscal year 2003, budget modifications were made to the original budget for the following capital and special projects in the carryover process:

- \$602,056 for the Town Center Parking Structure Maintenance.
- \$93,493 for the Redevelopment Plan Project Area Economic Analysis.
- \$1,500,000 for the Downtown Public Improvements

Certain capital projects budgeted for the current year were not completed and the unspent portions of the appropriations will be in the carryover process for fiscal year 2004.

***F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS***

***Capital Assets***

Capital assets of the Agency are those assets that are used in the performance of the Agency's functions. At June 30, 2003, net capital assets of the governmental activities totaled \$15.7 million including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

**Management's Discussion and Analysis, Continued**  
**Fiscal Year Ended June 30, 2003****F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued****Capital Assets, Continued**

The following is a summary of the Agency's capital assets as of June 30, 2003 (amounts in thousands).

Description	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 13,154	\$ -	\$ 13,154
Improvements Other than Buildings	6,972	4,453	2,519
<b>Total</b>	<b>\$ 20,126</b>	<b>\$ 4,453</b>	<b>\$ 15,673</b>

The Agency had no major capital asset additions that were completed during the year.

**Long-term Obligations**

As of June 30, 2003 the Agency had outstanding debt issues as listed below (amounts in thousands).

Tax Allocation Bonds	\$ 7,440
Certificates of Participation	15,450
<b>Total Net Assets</b>	<b>\$ 22,890</b>

The Agency had no new debt during the current fiscal year.

**G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In preparing the budget for the next fiscal year the following factors were taken into consideration:

- The unemployment rate for the City was 7.4% as compared to 6.7% for the prior year. This rate is slightly higher than the State rate of 6.8%. Our high unemployment rate is due to the recession that has affected the country and especially the Silicon Valley.
- Inflation rate for the San Francisco Bay metropolitan area was 3.1%, which is lower than the national inflation rate of 3.8%.
- The Agency is facing a revenue cap in the amount of \$118 million, which is estimated to be reached in the fiscal year ending June 30, 2019.

***Management's Discussion and Analysis, Continued***  
***Fiscal Year Ended June 30, 2003***

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***G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued***

In general, the Agency and the City as a whole are experiencing a significant downturn in the economy. This downturn has affected the Agency's ability to generate revenues at prior year levels.

The Agency's approach to budgeting requires that the Agency Board approve a financial plan that has been balanced to the twentieth year. This long-term nature of the City's financial planning system allows decision makers to better understand the true effect of policy decisions. One of the most powerful aspects of the multi-year financial planning is its capability to recognize trends over time and begin at an early point to consider the necessary steps to alter the long-term forecasted position of the Agency.

Given these assumptions, the nature of the Agency Long-term Financial Plan has changed. It is assumed that any increase to property tax revenues in the downtown can be used for two purposes beyond payment of debt service: repayment to the City on the outstanding loan or downtown projects. For the financial plan the repayment to the City was held constant at the level previously planned, and the debt service payments were maintained for the required time period. Any remaining funds were shown in the *Downtown Increased Tax Benefit* expenditure line item on a level annual basis. This line item reflects the potential additional tax increment funds that the City has available for downtown projects or repayment to the City.

It is important to note that no further development activity has yet been anticipated in the financial plan. To the extent that the Town Center Mall is redeveloped and development occurs on the north of Washington block, more tax increment will be produced for the Agency, which will cause the City to reach its revenue limit earlier. To address the issue of the property tax increment cap, the City is currently in the process of evaluating the feasibility of amending the Redevelopment Plan to increase the revenue limit.

***H. REQUEST FOR INFORMATION***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Sunnyvale Finance Department, 650 W. Olive Avenue, Sunnyvale, California 94086.

## ***Government-Wide Financial Statements***



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**REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**

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**Statement of Net Assets**  
**June 30, 2003**

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	<b>Governmental Activities</b>
<b>Assets:</b>	
Current Assets	
Cash and Investments Held by City	\$ 1,499,538
Cash and Investments Held by Fiscal Agent	1,988,644
Interest Receivable	12,472
Total Current Assets	<u>3,500,654</u>
Noncurrent Assets	
Capital Assets:	
Land	13,154,251
Depreciable Assets, Net	2,518,819
Total Capital Assets	<u>15,673,070</u>
Total Noncurrent Assets	<u>15,673,070</u>
<b>Total Assets</b>	<u><u>19,173,724</u></u>
<b>Liabilities:</b>	
Current Liabilities	
Accounts Payable and Accrued Liabilities	317,021
Interest Payable	304,417
Long-term Debt - Due Within One Year	680,000
Total Current Liabilities	<u>1,301,438</u>
Noncurrent Liabilities	
Advance from Other City Funds	45,906,759
Long-term Debt - Due in More than One Year	22,210,000
Total Noncurrent Liabilities	<u>68,116,759</u>
<b>Total Liabilities</b>	<u>69,418,197</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	<u>(7,216,930)</u>
Restricted for:	
Debt Service	1,988,644
Specific Projects and Programs	4,661,606
Total Restricted Assets	<u>6,650,250</u>
Unrestricted Deficit	<u>(49,677,793)</u>
<b>Total Net Assets</b>	<u><u>\$ (50,244,473)</u></u>

See Accompanying Notes to Basic Financial Statements



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**REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**

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**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2003**

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<u>Functions/Programs</u>	<u>Governmental Activities Expenses</u>
<b>Primary Government:</b>	
<b>Governmental Activities:</b>	
Planning and Management	\$          317,575
Community Development	967,011
Interest on Long-term Debt	<u>         4,695,326</u>
<b>Total Governmental Activities</b>	<u>         5,979,912</u>
<b>Total Primary Government</b>	<u>         5,979,912</u>
 <b>General Revenues:</b>	
Taxes:	
Property Taxes	2,684,509
Investment Earnings - Unrestricted	<u>          85,684</u>
<b>Total General Revenues</b>	<u>         2,770,193</u>
 <b>Change in Net Assets</b>	 (3,209,719)
 <b>Net Assets (Deficits) - Beginning of Year</b>	 <u>(47,034,754)</u>
<b>Net Assets (Deficits) - End of Year</b>	 \$ <u><u>(50,244,473)</u></u>

See Accompanying Notes to Basic Financial Statements



## ***Governmental Fund Financial Statements***

***General Fund*** accounts for all financial resources necessary to carry out basic governmental activities of the Agency that are not accounted for in another fund.

***Low and Moderate Income Housing Special Revenue Fund*** accounts for the funds deposited to improve and increase the supply of low and moderate income housing within the City.

***Debt Service Fund*** accumulates funds for payment of the 1992 Redevelopment Agency Central Core Tax Allocation Bonds, the 1998 Parking Lease Certificates of Participation, and the Advances from the City General Fund. Debt service is financed with incremental property tax revenues and the City's General Fund loan to the Agency.

***Capital Projects Fund*** accounts for financial resources to be used for the acquisition or construction of Agency capital projects.

**REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE****Balance Sheet and Reconciliation to the Government-Wide Statement of Net Assets  
Governmental Funds  
June 30, 2003**

		<b>Major Funds</b>	
	<b>General Fund</b>	<b>Low and Moderate Income Housing Special Revenue</b>	<b>Debt Service</b>
<b>Assets:</b>			
Cash and Investments Held by Agency	\$ -	\$ -	\$ -
Cash and Investments Held by Fiscal Agent	-	-	1,988,644
Interest Receivable	12,133	-	339
Due From Other Funds	-	4,661,606	-
<b>Total Assets</b>	<b>\$ 12,133</b>	<b>\$ 4,661,606</b>	<b>\$ 1,988,983</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts Payable and Accrued Liabilities	\$ 316,021	\$ -	\$ 1,000
Due to Other Funds	4,661,606	-	-
Advances from Other City Funds	-	-	45,906,759
<b>Total Liabilities</b>	<b>4,977,627</b>	<b>-</b>	<b>45,907,759</b>
<b>Fund Balances:</b>			
Reserved for Low and Moderate Income Housing	-	4,661,606	-
Reserved for Debt Service	-	-	1,988,643
<b>Total Reserved</b>	<b>-</b>	<b>4,661,606</b>	<b>1,988,643</b>
Unreserved and Designated for Capital Projects	-	-	-
Unreserved and Undesignated	(4,965,494)	-	(45,907,419)
<b>Total Fund Balances</b>	<b>(4,965,494)</b>	<b>4,661,606</b>	<b>(43,918,776)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 12,133</b>	<b>\$ 4,661,606</b>	<b>\$ 1,988,983</b>

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Total Governmental Fund Balances.

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

**Net Assets of Governmental Activities**


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<u>Major Funds</u>	
<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 1,499,538	\$ 1,499,538
-	1,988,644
-	12,472
-	4,661,606
<u>\$ 1,499,538</u>	<u>\$ 8,162,260</u>

\$ -	\$ 317,021
-	4,661,606
-	45,906,759
<u>-</u>	<u>50,885,386</u>

-	4,661,606
-	1,988,643
-	6,650,249
1,499,538	1,499,538
-	(50,872,913)
<u>1,499,538</u>	<u>(42,723,126)</u>
<u>\$ 1,499,538</u>	<u>\$ 8,162,260</u>

\$ (42,723,126)

15,673,070

(304,417)

(22,890,000)

\$ (50,244,473)

# REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

## Statement of Revenues, Expenditures and Changes in Fund Balances and Reconciliation to Statement of Activities and Changes in Net Assets Governmental Funds Year Ended June 30, 2003

	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
<b>Revenues:</b>			
Property Taxes	\$ 2,684,509	\$ -	\$ -
Use of Money and Property	-	-	85,684
<b>Total Revenues</b>	<b>2,684,509</b>	<b>-</b>	<b>85,684</b>
<b>Expenditures:</b>			
Current:			
Planning and Management	317,575	-	-
Community Development	734,427	-	-
Debt Service:			
Principal Retirement	-	-	650,000
Interest and Fiscal Charges	-	-	4,702,797
<b>Total Expenditures</b>	<b>1,052,002</b>	<b>-</b>	<b>5,352,797</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,632,507</b>	<b>-</b>	<b>(5,267,113)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers In	-	536,902	1,862,307
Transfers Out	(2,399,209)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(2,399,209)</b>	<b>536,902</b>	<b>1,862,307</b>
<b>Net Change in Fund Balances</b>	<b>(766,702)</b>	<b>536,902</b>	<b>(3,404,806)</b>
<b>Fund Balances - Beginning of Year</b>	<b>(4,198,792)</b>	<b>4,124,704</b>	<b>(40,513,970)</b>
<b>Fund Balances - End of Year</b>	<b>\$ (4,965,494)</b>	<b>\$ 4,661,606</b>	<b>\$ (43,918,776)</b>

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in Fund Balances of Governmental Funds.

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.

Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This amount represents long-term debt repayments.

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in Governmental Funds. The following amount represents the change in accrued interest from prior year.

### Change in Net Assets of Governmental Activities



<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ -	\$ 2,684,509
-	85,684
-	<u>2,770,193</u>
-	317,575
172	734,599
-	650,000
-	<u>4,702,797</u>
172	<u>6,404,971</u>
(172)	(3,634,778)
-	2,399,209
-	<u>(2,399,209)</u>
-	-
(172)	(3,634,778)
1,499,710	<u>(39,088,348)</u>
<u>\$ 1,499,538</u>	<u>\$ (42,723,126)</u>

(3,634,778)

(232,412)

650,000

7,471  
\$ (3,209,719)





**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2003**

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***Notes to Basic Financial Statements, Continued***  
***Fiscal Year Ended June 30, 2003***

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The component unit financial statements of the Redevelopment Agency (Agency) of the City of Sunnyvale (City), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

***A. Reporting Entity***

**Redevelopment Agency of the City of Sunnyvale**

The Agency was established under the provisions of the community redevelopment laws of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

Because City Council members serve as the governing members of the Agency, management activities of the Agency are conducted by City staff, and the Agency is dependent upon the City for fiscal operations including preparation of the annual financial report, the Agency is considered a component unit of the City and blended into the City's Comprehensive Annual Financial Report.

***B. Basis of Accounting and Measurement Focus***

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements**

The Agency Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency. The Agency has no Business Type Activities.

The Government-Wide Financial Statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions

***Notes to Basic Financial Statements, Continued***  
***Fiscal Year Ended June 30, 2003***

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

reported as revenues for the Agency are general revenues such as property tax increment and interest revenues. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities and Changes in Net Assets, interfund transfers have been eliminated.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) to the governmental activities.

**Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The Agency has presented all governmental funds as major funds because the Agency believes the financial position and activities of those funds are significant to the Agency as a whole.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax increment and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

***C. Use of Restricted/Unrestricted Net Assets***

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

***Notes to Basic Financial Statements, Continued***  
***Fiscal Year Ended June 30, 2003***

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

***D. Cash, Deposits and Investments***

The Agency pools unrestricted cash resources of its various funds with the City to facilitate cash management. No interest earnings from the City's cash and investment pool are apportioned to the Agency since the Agency, because of debt obligations, relies on the City to supplement its cash needs. Interest income from cash and investments with fiscal agents is credited directly to the related fund of the Agency.

***E. Property Tax Revenue***

California State Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1 percent of its assessed value unless an additional amount has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than 2 percent per year unless there is new construction on the property or the property is sold or transferred. The California Legislature has determined the method of distribution of receipts from the 1 percent tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties, bills and collects property taxes for the Agency. Secured and unsecured taxes are levied on July 1. Secured tax is due in two installments on November 1 and February 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. Unsecured tax is due as of the January 1 lien date and becomes delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured tax. If unsecured tax remains unpaid on October 31, an additional 1.5% attaches to it on the first day of each month until paid. The term "unsecured" refers to taxes on property not secured by liens on real property.

Property tax revenues are recorded when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

The Agency has elected not to participate in the "Teeter Plan" offered by the County, thereby retaining the right to any interest and interest and penalties collected on the related delinquent taxes.

The Agency's property taxes consist of tax increment revenue. This revenue is calculated by property taxes generated by the Agency through development activities. At the time a development project is undertaken the base property tax levy on the property is frozen and the full amount of incremental taxes due to increased value of the property becomes the Agency's revenue. The Agency's tax increment revenue is based on development activity in the project area, which is the downtown area of the City.

*Notes to Basic Financial Statements, Continued*  
*Fiscal Year Ended June 30, 2003*

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

***F. Interfund Balances***

Outstanding balances between the Agency's funds are reported as due to and due from other funds.

***G. Advances from Other City Funds***

Outstanding balances owed to the City by the Agency are reported as advances from other City funds.

***H. Capital Assets***

The Agency's capital assets, which include land and improvements, are reported in the governmental activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost was not available. The capitalization threshold for reporting capital assets is \$5,000. Depreciation is recorded on a straight-line method (with half-year convention applied to the first year of acquisition) over the useful lives of the assets. The Agency's depreciable capital assets are parking improvements that have been depreciated over an estimated useful life of thirty years.

***I. Long-term Debt***

**Government-Wide Financial Statements**

Long-term debt and other financed obligations are reported as liabilities in the governmental activities.

**Fund Financial Statements**

The fund financial statements do not present long-term debt which is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

***J. Net Assets and Fund Equity***

**Government-Wide Financial Statements**

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount includes all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

***Notes to Basic Financial Statements, Continued***  
***Fiscal Year Ended June 30, 2003*****1. SIGNIFICANT ACCOUNTING POLICIES, Continued****Fund Financial Statements**

Fund Equity – Reservations and designations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

***K. Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could differ from these estimates and assumptions.

***L. Implementation of New GASB Pronouncements***

In fiscal year 2003, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 39, *Determining Whether Certain Organizations are Component Units*.
- Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*

There were no effects on the financial statements as a result of the above Statements.

**2. CASH AND INVESTMENTS**

The Agency pools its cash with the City. At June 30, 2003, the Agency had the following cash and investment balances:

Cash and Investments Held by the Agency	\$ 1,499,538
Cash and Investments Held by Fiscal Agent	<u>1,988,644</u>
Total Cash and Investments	<u><u>\$ 3,488,182</u></u>

Refer to the City's Comprehensive Annual Financial Report for detailed disclosure on cash and investments.

*Notes to Basic Financial Statements, Continued*  
*Fiscal Year Ended June 30, 2003*

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**3. INTERFUND RECEIVABLES/PAYABLES**

**Fund Financial Statements**

***Due to/from Other Funds***

At June 30, 2003, the Agency General Fund owed the Low and Moderate Income Housing Special Revenue Fund \$4,661,606. This amount represents the 20% of redevelopment property tax increment revenues that are set aside for low and moderate income housing by State mandate. The Agency cannot provide funding due to pre-existing indebtedness. Under current projections, this amount will not be repaid until after the tax increment revenue cap has been reached. The advance carries no interest and has no specific repayment terms.

**4. ADVANCES FROM OTHER CITY FUNDS**

The Redevelopment Agency (as lessor) entered into a lease agreement with the City (as lessee) on May 1, 1977, for a two-level parking structure at the Sunnyvale Town Center Mall. The lease, as amended, requires the City to pay to the Agency base rental payments ranging from \$1,131,103 to \$1,281,250 of each year until October 1, 2022. In addition to base rental payments, the City is also obligated to pay all taxes, assessments, administrative costs, certain insurance premium, certain maintenance costs, and all other such costs in order to maintain the existence of the parking structure or to comply with the terms of the related bond resolutions. During fiscal year ended June 30, 2003, the City made \$1,215,677 in base rental payments to the Agency. The Agency uses these funds to make the annual debt service payments on the 1998 Parking Facility, Series A, Certificates of Participation.

According to the terms of the First Amended Repayment Contract signed in 1977, the Agency made the commitment to repay the City for costs advanced on its behalf and base rentals plus 8% interest on the unpaid balance. The funds needed to repay the City are generated from tax increment revenues. The Agency's first obligation is to pay the Central Core bonded debt service. The remaining tax increment revenues determine each year's repayment to the General Fund.

During the fiscal year ended June 30, 2002, the General Fund advanced an additional \$1,500,000 to the Agency to fund downtown public improvements. This advance bears interest at 6% and is payable in annual installments through 2007.

Total interest accrued on unpaid City advances for the fiscal year amounted to \$3,426,091, which includes \$3,330,691 accrued at 8% on unpaid City advances based on the first amended repayment contract and \$95,400 accrued at 6% on the \$1.5 million advance for the downtown improvement.



**Notes to Basic Financial Statements, Continued**  
**Fiscal Year Ended June 30, 2003****4. ADVANCES FROM OTHER CITY FUNDS, Continued**

The following is a summary of transactions during the fiscal year ended June 30, 2003:

Advances from Other City Funds, July 1, 2002	\$ 42,511,398
<i>Additional Advances from City for:</i>	
Base Rental Payments	1,215,677
Operations and Projects	771,170
<i>Repayments to City from:</i>	
Tax Increment Revenue after Central Core Debt Service	(2,017,577)
Interest Accrued on Unpaid City Advances	3,426,091
Advances from Other City Funds, June 30, 2003	<u>\$ 45,906,759</u>

**5. CAPITAL ASSETS****A. Government-Wide Financial Statements**

At June 30, 2003, the Agency's capital assets consisted of the following:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 13,154,251	\$ -	\$ -	\$ 13,154,251
Improvements Other Than Buildings	6,972,360	-	-	6,972,360
Total Capital Assets	<u>20,126,611</u>	<u>-</u>	<u>-</u>	<u>20,126,611</u>
Less Accumulated Depreciation	<u>(4,221,129)</u>	<u>(232,412)</u>	<u>-</u>	<u>(4,453,541)</u>
<b>Total Governmental Activities</b>	<u>\$ 15,905,482</u>	<u>\$ (232,412)</u>	<u>\$ -</u>	<u>\$ 15,673,070</u>

Governmental activities' depreciation expenses for capital assets for the year ended June 30, 2003 are as follows:

Community Development	\$ 232,412
<b>Total Depreciation Expense</b>	<u>\$ 232,412</u>

**B. Funds Financial Statements**

The Fund Financial Statements do not present General Government Capital Assets which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

**Notes to Basic Financial Statements, Continued**  
**Fiscal Year Ended June 30, 2003****6. LONG-TERM DEBT**

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2003:

<b>Long-term Debt</b>	<b>Beginning Balance July 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2003</b>	<b>Amounts Due Within One Year</b>
<b>Governmental Activities:</b>					
Redevelopment Central Core					
Tax Allocation Bonds	\$ 7,625,000	\$ -	\$ (185,000)	\$ 7,440,000	\$ 195,000
Redevelopment 1998 Parking Facility					
Certificates of Participation	15,915,000	-	(465,000)	15,450,000	485,000
<b>Total Governmental Activities</b>	<b>\$ 23,540,000</b>	<b>\$ -</b>	<b>\$ (650,000)</b>	<b>\$ 22,890,000</b>	<b>\$ 680,000</b>

**Tax Allocation Bonds****\$8,900,000 1992 Central Core Redevelopment Project Tax Allocation Bonds**

Due in annual installments of \$115,000-\$630,000 through October 1, 2022, interest at 5.25-6.50%, repayments made from incremental property taxes recorded in the Redevelopment Agency General Fund.

The debt service requirements for the bonds at June 30, 2003 were as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 195,000	\$ 470,343	\$ 665,343
2005	205,000	458,040	663,040
2006	220,000	444,810	664,810
2007	235,000	430,533	665,533
2008	250,000	415,255	665,255
2009-2013	1,505,000	1,811,183	3,316,183
2014-2018	2,045,000	1,248,325	3,293,325
2019-2023	2,785,000	475,313	3,260,313
<b>Total</b>	<b>\$ 7,440,000</b>	<b>\$ 5,753,802</b>	<b>\$ 13,193,802</b>

**Notes to Basic Financial Statements, Continued**  
**Fiscal Year Ended June 30, 2003****6. LONG-TERM DEBT, Continued****Certificates of Participation****\$17,525,000 1998 Parking Facility, Series A, Certificates of Participation**

Due in annual installments of \$315,000-\$1,250,000 through October 1, 2022, interest at 3.65%-5.00%, repayments made from base rental payments from the City General Fund.

The debt service requirements for the Certificates of Participation at June 30, 2003 were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 485,000	\$ 731,678	\$ 1,216,678
2005	500,000	711,728	1,211,728
2006	520,000	690,558	1,210,558
2007	545,000	667,920	1,212,920
2008	570,000	643,805	1,213,805
2009-2013	3,240,000	2,797,288	6,037,288
2014-2018	4,110,000	1,903,564	6,013,564
2019-2023	5,480,000	720,750	6,200,750
Total	<u>\$ 15,450,000</u>	<u>\$ 8,867,291</u>	<u>\$ 24,317,291</u>

**Prior Year Defeasance of Debt**

In prior years, the Agency defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts in amounts sufficient to meet all future debt service requirements of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2003 the following outstanding bonds are considered defeased:

1977 Central Core Redevelopment Tax Allocation Bonds (refunded in 1992)	\$ 3,965,000
1977 Parking Lease Revenue Bonds, Series A and B (refunded in 1992)	\$ 6,125,000
1992 Parking Lease Revenue Refunding Bonds (refunded in 1998)	\$ 14,225,000

The Agency has complied with all significant bond covenants relating to reserve and sinking fund requirements, proof of insurance and budgeted revenues and maintenance costs.

**Notes to Basic Financial Statements, Continued**  
**Fiscal Year Ended June 30, 2003**

**7. SELF-INSURANCE AND CONTINGENT LIABILITIES**

The Agency is covered under the City's self-insurance plan and various insurance policies. The City is self-insured for claims related to general liability up to \$500,000 per incident; for claims related to workers' compensation liability up to \$275,000 per incident; and for unemployment insurance through direct reimbursement to the State for actual unemployment benefits paid. Employers' Reinsurance, Inc. provides workers' compensation coverage to the City for claims up to \$1,000,000 for employer's liability damages and \$10,000,000 for statutory benefits in excess of \$275,000. The City participates in the liability program of the California Joint Powers Risk Management Authority (CJPRMA), a risk sharing pool, which provides public liability coverage to its members. CJPRMA provides public liability coverage for claims in excess of \$500,000 up to \$14,500,000.

**8. INTERFUND TRANSFERS**

A transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement. Examples include transfer of funds from the general fund or a special revenue fund to a debt service fund to support principal and interest payments and transfer of funds as part of an operating subsidy. Listed below are interfund transfers for the year ended June 30, 2003:

		<b>Transfers In</b>		
		<b>Governmental Funds</b>		
		<b>Major Funds</b>		
<b>Transfers Out</b>		<b>Special Revenue</b>	<b>Debt Service</b>	<b>Totals</b>
	<b>Governmental Funds</b>			
	Major Funds:			
	General Fund			
		\$ 536,902	\$ 1,862,307	\$ 2,399,209
	<b>Totals</b>	<b>\$ 536,902</b>	<b>\$ 1,862,307</b>	<b>\$ 2,399,209</b>

**Notes to Basic Financial Statements, Continued**  
**Fiscal Year Ended June 30, 2003****9. CLASSIFICATION OF NET ASSETS****Government-Wide Financial Statements**

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the Agency Board.

Unrestricted Net Assets – This category represents the net assets of the Agency, which are not restricted for any project or other purpose.

**Fund Financial Statements**

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Agency Board and Management and can be increased, reduced or eliminated by similar actions.

In Governmental Funds, fund reservations are presented as a component of fund balance as follows:

	Low and Moderate Income Housing Special Revenue	Debt Service
Low and Moderate Income Housing	\$ 4,661,606	\$ -
Debt Service	-	1,988,644
Total	<u>\$ 4,661,606</u>	<u>\$ 1,988,644</u>

Fund reservations are described as follows:

Reserved for Low and Moderate Income Housing represents the portion of the Redevelopment Agency's property tax increment revenues which are required by State law to be spent on housing for low and moderate income households.

***Notes to Basic Financial Statements, Continued***  
***Fiscal Year Ended June 30, 2003*****9. CLASSIFICATION OF NET ASSETS, Continued**

Reserved for Debt Service represents the portion of fund balance that is legally restricted as per the bond covenants.

In Governmental Funds, fund designations are presented as a component of unreserved fund balance.

At June 30, 2003, the Capital Projects Fund had designated \$1,499,538 for capital projects to reflect management's plans to reappropriate current financial resources for ongoing capital projects.

**10. DEFICIT NET ASSETS AND FUND EQUITY****Government-Wide Financial Statements**

The governmental activities in the Government-Wide Financial Statements had deficit unrestricted net assets of \$49,677,793. These deficit unrestricted net assets are due to liabilities incurred by these activities from advances made by the City. These advances were used to either acquire or improve capital assets located within the redevelopment project area. The deficit net assets will be eliminated as repayments are made to the City from tax increment revenues.

**Fund Financial Statements**

The following funds had deficit fund balances as of June 30, 2003:

General Fund	\$ 4,965,494
Debt Service Fund	\$ 45,907,420

The deficit fund equity in the Agency's General Fund has been caused by the State mandated 20% of tax increment revenues set aside for low and moderate income housing. Because the Agency General Fund did not have sufficient funds to make the required transfer to the Low and Moderate Income Housing Special Revenue Fund, a liability was recorded in the Agency General Fund causing a deficit fund equity. The deficit is expected to be funded by collection of property taxes. Under current projections repayment will not start until after the tax increment cap has been reached.

The recording of long-term advances from the City to the Agency has caused the deficit fund equity in the Agency's Debt Service Fund. The deficit is expected to be funded by operating transfers from the Agency's General Fund.

***Required Supplementary Information***

**Required Supplementary Information**  
**Fiscal Year Ended June 30, 2003**

**BUDGETARY POLICY AND CONTROL**

**Budgetary Comparison Schedule - General Fund**  
**Fiscal Year Ended June 30, 2003**

	<b>Budgeted Amount</b>			<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Fund Balance, July 1, 2002</b>	\$ (4,198,792)	\$ (4,198,792)	\$ (4,198,792)	\$ -
<b>Resources (Inflows):</b>				
Property Taxes	2,401,565	2,151,565	2,684,509	532,944
<b>Total Resources</b>	<u>2,401,565</u>	<u>2,151,565</u>	<u>2,684,509</u>	<u>532,944</u>
<b>Charges to Appropriations (Outflows)</b>				
Planning and Management	57,523	753,072	317,575	435,497
Community Development	724,108	735,118	734,427	691
Transfers Out	1,569,473	2,195,406	2,399,209	(203,803)
<b>Total Charges to Appropriations</b>	<u>2,293,581</u>	<u>3,683,596</u>	<u>3,451,211</u>	<u>232,385</u>
<b>Excess of Revenues Over (Under) Charges to Appropriations</b>	<u>107,984</u>	<u>(1,532,031)</u>	<u>(766,702)</u>	<u>765,329</u>
<b>Fund Balances, June 30, 2003</b>	<u>\$ (4,090,808)</u>	<u>\$ (5,730,823)</u>	<u>\$ (4,965,494)</u>	<u>\$ 765,329</u>

**Budgetary Comparison Schedule – Low and Moderate Income Housing Special Revenue Fund**  
**Fiscal Year Ended June 30, 2003**

	<b>Budgeted Amount</b>			<b>Variance with Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Fund Balance, July 1, 2002</b>	\$ 4,124,704	\$ 4,124,704	\$ 4,124,704	\$ -
<b>Resources (Inflows):</b>				
Transfers In	480,313	430,313	536,902	106,589
<b>Total Resources</b>	<u>480,313</u>	<u>430,313</u>	<u>536,902</u>	<u>106,589</u>
<b>Fund Balances, June 30, 2003</b>	<u>\$ 4,605,017</u>	<u>\$ 4,555,017</u>	<u>\$ 4,661,606</u>	<u>\$ 106,589</u>



***Required Supplementary Information, Continued***  
***Fiscal Year Ended June 30, 2003***

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**BUDGETARY POLICY AND CONTROL, Continued**

**Budgetary Information**

The Agency's budget is adopted at the same time and as part of the City's budget. The City's approach to budget preparation is a central part of the City's Planning and Management System (PAMS). Key elements of the PAMS framework are:

- Long-range strategic planning (the General Plan Elements and Sub-Elements),
- Long-term financial planning (the Ten-Year Resource Allocation Plan, which includes projections over a 20-year time frame),
- Short-term allocation of resources (the two-year action budget),
- The Council Study Issues process,
- Performance "contracts" for Management, and
- Annual performance reporting and evaluation.

The City in establishing the budgetary data reflected in its financial statements follows the procedures listed below:

- During December of each year, a public hearing (not legally required) is held by the City Council to obtain budgetary comments from the public early in the budget process.
- During May of each year, the City Manager submits to the City Council, a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's budget no later than May 25.
- The City Manager's budget includes budgets for equipment, operating costs, debt service costs, and capital and special projects for the ensuing year.
- During May of each year the City Council holds a workshop on the budget. The workshop is open to the public.
- During June of each year the City Council holds a public hearing, legally required by the City Charter, where the public may submit written or oral comments regarding the entire budget or portions thereof.
- Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution. At June 30, 2003, the legal level of control was placed by the City Council at the departmental level. Appropriations lapse at year-end to the extent they have not been expended.
- The City Manager is authorized to transfer budgeted amounts within departments. Any revisions that affect a fund's reserve account must be approved by the City Council.
- Budgets are legally adopted for all governmental funds.

Formal budgets are employed as a management control device for all funds in which a budget has been adopted. They serve as the primary means of spending control for the general fund, special revenue funds, debt service funds and capital project funds.

***Required Supplementary Information, Continued***  
***Fiscal Year Ended June 30, 2003***

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**Budgetary Information, Continued**

- Budgeted amounts reported are those as originally adopted June 25, 2002, plus all amendments approved during the year by the City Council. Individual amendments were not material in relation to the original amounts budgeted. The City's policy is to reappropriate uncompleted capital projects into the next fiscal year.

**Budgetary Highlights**

The Agency General Fund appropriations budget (outflows) was amended during the fiscal year to reflect carryover of unspent special projects funds and unanticipated expenditures. Total budget modifications resulting from carryover appropriations totaled \$695,549 for special projects.

Resources (inflows) of the Agency General Fund were also amended during the fiscal year due to change in property tax increment revenues.

The difference in the original and final budgets of the Low and Moderate Income Housing Special Revenue Fund was due to change in property tax increment revenues.

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